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Indications of Political Instability in Key Countries [redacted] 3.5(c)

December 1983

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Indications of Political Instability in Key Countries 3.5(c)

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December 1983

This quarterly was produced by and coordinated within the Directorate of Intelligence. Comments and suggestions are welcome and may be addressed to Instability and Insurgency Center, Office of Global Issues.

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GI IPI 83-004
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South America

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Argentina [1]

President Alfonsin's stunning electoral victory over the Peronists—combined with his willingness to compromise and the disarray within the military—should give him at least six months' grace in which to introduce reforms. Thereafter, mounting economic and political pressures probably will increasingly narrow his policy choices.

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Argentina

- Raul Alfonsin of the moderately left-of-center Radical Civic Union was elected president with 52 percent of the vote, provided by a coalition of the middle class and blue-collar workers. 3.5(c)

- The Radicals, who also captured the lower house of the Congress, have promised to reform the military and the Peronist-dominated labor movement, revitalize the economy, root out corruption, defend human rights, and strengthen ties with the Nonaligned Movement. 3.5(c)

- The Peronists, caught off guard, have not yet developed a new party strategy; moderate Peronists so far have responded positively to Alfonsin's call for national unity and cooperation 3.5(c)

- Alfonsin's victory has led to still greater disarray within the much discredited armed forces 3.5(c)

- The shortage of foreign exchange compelled the government to ban all imports for the first 21 days of October. Thereafter, quotas were imposed that allow for only about a third of fourth-quarter 1982 imports 3.5(c)

Comment

We believe that the strength of Alfonsin's electoral mandate, his willingness to compromise, and the disarray in the Peronist movement and the military will give the President and his incoming government at least six months' breathing space. We anticipate that political opposition will increase toward the end of 1984, especially if the economy deteriorates, although it will not threaten the regime for some time. The Peronists will have recovered some lost ground by then and probably will become more aggressive. The diverse coalition that elected Alfonsin might begin to unravel in the face of competing demands and his willingness to compromise with the Peronists and the military. We do not foresee any serious threat of military intervention during Alfonsin's first year in office, but the reemergence of major social tensions could again tempt military leaders 3.5(c)

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In the coming weeks, Alfonsin will use his momentum to move forward on key issues. Moderate Peronists have signaled their willingness to cooperate on some issues. Alfonsin appears to have considerable support among the Peronist rank and file, many of whom voted for him, for ousting disreputable union leaders. Alfonsin also holds an edge over the military, which leaves office after seven years of economic failure,

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massive human rights violations, and the bitter Falklands defeat last year. The new President will try to take advantage both of his strength and of the military's weakness to reassert civilian control and cut military spending. To forestall military intervention in politics, he is likely to compromise on two issues critical to the military—human rights and corruption—by leaving them to the courts to investigate and decide. The President also appears to be going along with the military's nuclear program.

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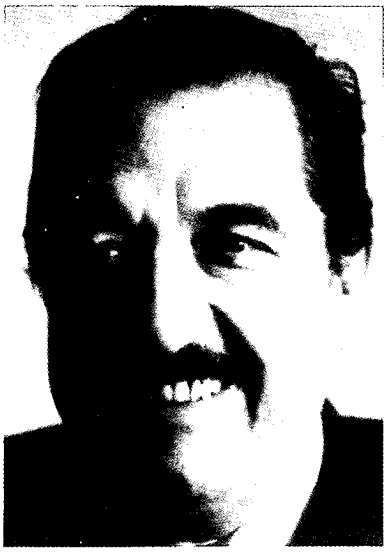
We believe that Alfonsin will achieve mixed results in his primary economic objectives of restraining inflation, reactivating the economy, and renegotiating the $40 billion foreign debt. His sweeping electoral mandate should sharply increase political optimism and thus diminish the economic uncertainty underlying speculative price increases and enable the government to quickly reach wage and price agreements. Consequently, we expect a temporary lowering of inflation to around 5 percent monthly as compared with a 21.4-percent rate in September. Alfonsin's plans to stimulate growth through stepped-up government spending, subsidized commercial interest rates supported by military spending cuts, and improved tax collection could generate a modest economic recovery. Economic problems will intensify after mid-1984, however, in part because large monetary growth in late 1983 probably will lead to a recurrence of higher inflation rates and jeopardize wage and price agreements.

Although Alfonsin has stated clearly his intention to service the foreign debt to ease bankers' apprehensions, we believe his plans for deficit spending could stall an agreement with the IMF, which is a prerequisite for reaching new terms on commercial bank debts. There is room for compromise on the amount of deficit spending, but, if the IMF takes a tough stance, the result probably will be an impasse that would increase the attraction of a debt moratorium. If Alfonsin sticks to his stimulative spending plan despite the shortfall in revenues that we expect will occur, the widening fiscal deficit in late 1984 will give an additional push to inflation and create added conflict with international creditors.

Raul Ricardo Alfonsin



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The new President, who is 56, has demonstrated courage and patience in pursuing a lifelong commitment to democratic ideals, human rights, and social justice. Although his principles represent strongly held beliefs, Alfonsin is not dogmatic or inflexible and tempers his idealistic rhetoric with appeals to realism. He identified himself with the human rights movement long before it became either popular or safe. Prior to his election campaign, he organized mass rallies and, as an attorney, defended numerous political detainees. Alfonsin's reputation enabled him to run as a decent, honest man who offered a genuine alternative to Peronism. He showed an ability to compromise and, using consistent and simple themes, successfully built a winning coalition. On the basis of his track record, we believe Alfonsin has the skill and temperament to moderate his campaign rhetoric, adjust to political realities, and—to the degree anyone can—walk the tightrope of remaining true to his principles while working to bring together the disparate forces that compose Argentine society.

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Key Indicators To Watch For

Prospective Scenario

- Willingness by the Radicals and Peronists to compromise their political differences temporarily.
- Renewed confidence in the Argentine economy, prompting a decline in inflation and an increase in investment.
- Acceptance by second-echelon labor leaders and the rank and file of Alfonsin's plans to reform and democratize labor unions.
- Military acquiescence in Alfonsin's policies and support for the democratic process.
- Renewed higher inflation rates in late 1984.
- Consequent growing polarization between the Radicals and Peronists.

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Alternative Scenarios

- The emergence of competing demands within Alfonsin's electoral coalition, leading to its unraveling.
- A major revival of popular support for the Peronists, prompted by the return of Isabel Peron.
- The rapid end of cooperation by moderate Peronists, demonstrated by their refusal to endorse Alfonsin's policies in the Congress.
- Alfonsin's failure to reach agreement with business and labor in the short term, leading to a renewed wage-price inflationary spiral, labor strikes, and popular protests.
- Alfonsin's taking a hard line on military corruption and human rights violations.
- A rapid increase in military unhappiness with Alfonsin's policies, leading to an end of rivalry between the services, renewed political assertiveness by the military, and cooperation with rightwing union officials.
- The reemergence and subsequent escalation of terrorism on the right and the left.
- Failure to reach agreement with the IMF.
- The government's declaration of a long-term moratorium on debt repayments.

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